

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07  
FRB-03 INR-07 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00  
LAB-04 SIL-01 OMB-01 IO-13 DODE-00 PA-01 USIA-06  
PRS-01 XMB-02 /073 W  
-----190649Z 066145 /17

R 181650Z MAY 77  
FM USMISSION EC BRUSSELS  
TO SECSTATE WASHDC 3833  
INFO ALL EC CAPITALS  
USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 5087

E.O. 11652: GDS  
TAGS: EFIN, EEC, IT  
SUBJECT: FINAL APPROVAL OF EC LOAN TO ITALY

REF: EC BRUSSELS 3908

1. SUMMARY: AT ITS MEETING OF MAY 16-17, THE EC COUNCIL GAVE FINAL APPROVAL TO THE \$500 MILLION COMMUNITY LOAN TO ITALY WHICH HAD BEEN AGREED TO IN PRINCIPLE APRIL 18. THE COUNCIL ALSO APPROVED THE ECONOMIC POLICY CONDITIONS TO BE ATTACHED TO THE LOAN WHICH PARALLEL THOSE OF THE IMF WITH MINOR DIFFERENCES DETAILED BELOW. END SUMMARY

2. THE MAY 16-17 EC COUNCIL MEETING ADOPTED A DECISION ENABLING THE FINAL IMPLEMENTATION OF THE LONG-PLANNED \$500 MILLION COMMUNITY LOAN TO BE FLOATED FOR ITALY. AGREEMENT IN PRINCIPLE HAD BEEN REACHED AT THE APRIL 18 FINANCE COUNCIL, WHICH GAVE THE COMMISSION AUTHORITY TO NEGOTIATE THE LOAN (REFTEL).

3. THE LOAN, DENOMINATED IN U.S. DOLLARS, WILL BE IN TWO SEGMENTS: ONE OF \$200 MILLION FOR FIVE YEARS AND THE OTHER OF \$300 MILLION FOR SEVEN YEARS. THE RATE OF INTEREST  
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WILL PROBABLY BE 7 1/2 PERCENT. THE LOAN SHOULD BE SIGNED BEFORE THE END OF THE MONTH AND THE PROCEEDS TRANSFERRED TO ITALY IMMEDIATELY THEREAFTER.

4. THE COUNCIL ALSO APPROVED THE ECONOMIC POLICY CONDITIONS TO ATTACHED TO THE LOAN FOR 1977. (THE SAME CONDITIONS ALSO ARE ATTACHED TO THE PREVIOUS LOAN

PROVIDED FROM THE EC MEDIUM-TERM FACILITY.) THESE ARE  
FIVE IN NUMBER:

- (1) TOTAL GOVERNMENT CASH EXPENDITURES TO BE LIMITED TO  
55,350 BILLION LIRE (B.1.);
- (2) GLOBAL PUBLIC SECTOR DEFICIT LIMITED TO 16,450 B.1.  
(9.7 PERCENT OF FORECASTED GDP COMPARED TO 13.4 PERCENT IN  
1976). OF THIS AMOUNT, 9,800 B.1. IS FOR THE TREASURY ONLY,  
AND 9,800 B.1. FOR THE TREASURY PLUS LOCAL GOVERNMENTS;
- (3) TOTAL DOMESTIC CREDIT EXPANSION LIMITED TO 30,600 B.1.;
- (4) MONETARY FINANCING OF TREASURY DEFICIT LIMITED TO 4,000  
B.1.;
- (5) THE INCREASE IN PUBLIC TARIFFS AND CERTAIN CONTROLLED  
PRICES MUST NOT BE ALLOWED TO INFLUENCE THE BASIS FOR WAGE  
INDEXATION (SCALA MOBILE).

5. IT WILL BE NOTED THAT THE FIRST TWO OF THESE ARE IDENTICAL  
TO CONDITIONS ATTACHED TO THE IMF STAND-BY. THE THIRD  
DIFFERS ONLY WITH RESPECT TO THE TIME PERIOD TO WHICH IT  
REFERS, AND IS COMPLETELY CONSISTENT WITH THE IMF  
CONDITIONS. THE FOURTH CONDITION HAS NO COUNTERPART  
IN THE IMF CONDITIONS. (AUTHORITATIVE SOURCES HERE  
DO NOT SEE THIS AS A VERY SIGNIFICANT DIFFERENCE.)  
FINALLY, WHILE THE IMF CONDITIONS REFER TO CHANGES IN  
THE SCALA MOBILE, THERE IS NO PRECISE COMMITMENT AS IN  
THE EC'S FIFTH CONDITION. ALSO THE EC CONDITIONS  
DO NOT REFER TO QUARTERLY TARGETS FOR THESE VARIABLES,  
AS DO THOSE OF THE IMF.

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6. EC CONDITIONS GO ON TO PLACE A 7 PERCENT LIMIT ON  
THE INCREASE IN TOTAL GOVERNMENT EXPENDITURES FOR 1978,  
AND A 14,450 B.1. LIMIT ON THE 1978 GLOBAL PUBLIC SECTOR  
DEFICIT (7.6 PERCENT OF GDP). OTHER CONDITIONS FOR 1978  
WILL BE DETERMINED BEFORE THE END OF THE YEAR.

7. WE HAVE RECEIVED A COPY OF THE FULL COUNCIL DECISION,  
AND ARE POUCHING TO EUR/RPE (GELBARD), OASIA TREASURY  
(SYVRUD), AND FRB (SIEGMAN).  
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## Message Attributes

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**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**Disposition History:** n/a  
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**Subject:** FINAL APPROVAL OF EC LOAN TO ITALY  
**TAGS:** EFIN, IT, EEC  
**To:** STATE  
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**Review Markings:**  
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